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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 001229

SIPDIS

DEPT FOR EUR/CACEN, EB/CIP

E.O. 12958: DECL: 07/07/2015

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SUBJECT: COMPETITION COMES TO ARMENIA'S TELECOM SECTOR

REF: 04 YEREVAN 2388

Classified By: AMB. JOHN EVANS FOR REASONS 1.4 (B/D)

SUMMARY

1. (SBU) In the culmination of Armenia's years-long struggle to end Armentel's monopoly on telecommunications in Armenia, a second mobile telephone operator entered the market on July 1. Backed by Karabakh Telecom, the monopoly operator in Nagorno-Karabakh, VivaCell immediately undercut Armentel's mobile prices in Armenia, prompting Armentel to announce lower tariffs for current subscribers starting July 1. While VivaCell's release of 100,000 SIM cards (prepaid subscription accounts) has disrupted Armenia's black market in Armentel's SIM cards, Armentel is not yet issuing new SIM cards or accounts. Given the lack of transparency in the tender to Karabakh Telecom and Armentel's seeming complicity in the deal, it is unlikely that competition will be vigorous in Armenia's telecom sector. Nonetheless, some competition in a service that many Armenians still consider a state bureaucracy may helpfully illustrate the benefits of open markets in Armenia's highly concentrated oligopolistic economy. End Summary.

NEW MOBILE OPERATOR ENTERS MARKET

2. (C) Suffering from high prices and woefully inadequate service, the GOAM tried for several years to bring competition to Armenia's telecommunications sector. Having gone through the expense of forcing a renegotiation of Armentel's monopoly, most people hoped for a competitive international tender after the Armentel settlement. Instead, the government settled the Armentel dispute and awarded the second mobile license to Karabakh Telecom simultaneously in a one-bidder, late-night tender (reftel). (Note: The Lebanese Ambassador told Ambassador over lunch July 6 that the Lebanese operator of Karabakh-Telecom, Pierre Fatouch, paid a bribe of USD 15 million for winning the tender (which may explain the low purchase price) and further alleged that Prime Minister Markarian, Minister of Defense Serzh Sargsian, as well as President Kocharian are all in the deal as shareholders. End Note.)

3. (SBU) Per the settlement agreement with Armentel last October, Karabakh Telecom opened for business as Armenia's second mobile service provider from July 1. On June 30, Karabakh Telecom published the price of new SIM cards (prepaid service plans) and the tariffs for its calls. On the same day Armentel announced 30 percent reductions in its tariffs beginning July 1.

MARKET STILL NOT ENTIRELY COMPETITIVE

4. (C) Vahe Yacoubian, an Amcit advisor to the Minister of Justice who helped engineer the deal, told us last October that there would be two mobile operators, but the market would not be "truly competitive." He pointed out that each operator must, as part of their respective licenses, use extra profits from its mobile business to cross-subsidize investment commitments in unprofitable fixed-line service in Armenia (Armentel) and Nagorno-Karabakh (Karabakh Telecom). While Yacoubian did not tell us the details of the contract between the two telecommunications companies, he did say that "Armenia is not ready for a completely market-based telecom sector." (Note: During the negotiations Armentel and Karabakh Telecoms had to reach agreement on many issues respecting interoperability and tariff-sharing, as Armentel controls much of Armenia's basic telecom infrastructure. End Note.)

5. (SBU) Armentel seems in no hurry to protect its market share. As Karabakh-Telecom's VivaCell began to issue new SIM cards, Armentel's office wasn't selling cards to new subscribers, saying that they may issue new numbers in August 2005. Armentel's acquiescence as VivaCell prepares to subscribe 300,000 mobile users over the summer suggests that Armentel has accepted giving up some market share immediately

to Karabakh Telecom. Since VivaCell entered the market, Armentel's service has experienced chronic difficulties that Armentel attributes to infrastructure controlled by the Ministry of Transport and Communication. Local press alleges that the GOAM is intentionally creating difficulties to boost the early competitiveness of VivaCell.

COMMENT: ONE STEP CLOSER TO COMPETITION

16. (SBU) Even though the tender process was neither transparent nor competitive, and Armenia's two mobile phone operators may not compete as vigorously as we had hoped, some broad benefits of a second operator are already evident. The quick demise of the black market for Armentel's cards (which always seemed to end up in the same hands) alone is a great boon to consumers, who until now had to spend a year on Armentel's waitlist or purchase black market SIM cards for USD 120 (more than four times their nominal cost). More importantly, the effect of competition in Armenia's costly and inadequate telephone service could remind Armenians of the benefits of competition elsewhere, and may raise public and political support for nascent institutions like Armenia's Competition Commission and the Public Services Regulatory Commission. These bodies are beginning to enforce competition law not only in the telecommunications sector, but in other sectors where informal monopolies or oligopolies control the entire market share in a particular good or service.

EVANS